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SUBJECT: ECONOMIC ISSUES FOR THE CONSTITUENT ASSEMBLY

REF: A. QUITO 2234
[1](#)B. QUITO 1992

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nd d.

[1](#)1. (C) Summary. According to Luis Rosero, Vice Minister for Economy, the Correa administration will use the upcoming Constituent Assembly to reform and strengthen public sector economic institutions, but will not seek significant changes for private sector institutions. Many of the changes will be legislative rather than constitutional, and in some instances the government may seek to remove detailed economic provisions from the constitution. An illustrative list of changes that the government may seek includes: clarifying the legal status of parastatal companies, eliminating budgetary earmarks, establishing a competition and consumer protection agency, redrafting the electric sector law, and eliminating private sector participation in Ecuador's trade policy body. End summary.

[1](#)2. (C) In a meeting with EconCouns on September 28, Vice Minister for the Economy Luis Rosero outlined elements of the Correa administration's economic plan for the constituent assembly. This conversation evolved during a meeting to address other issues, and therefore was not a planned presentation on the part of Rosero.

[1](#)3. (C) Rosero started the conversation by noting that President Correa plans to establish a new economic policy coordinating body within the government. He said that Correa believes that currently there is insufficient coordination, with each ministry having considerable autonomy. Rosero said it was not yet clear what form this new entity might take, but thought that it might be a coordinating council chaired by Correa, which would define economic policy and ensure consistent implementation across ministries. (Comment: such a change could likely be done without constitutional change, but was a prelude to Rosero's subsequent comments about Correa's desire to reshape public sector institutions.)

[1](#)4. (C) Rosero said that the Correa government is neither communist nor populist, and will focus its economic efforts in the Constituent Assembly to reshape public sector institutions responsible for economic policy. He said that the government does not intend to change private sector institutions, although in some instances it will seek to guide the private sector with incentives. Alluding to the considerable regulatory and contractual uncertainty that currently exists in Ecuador, Rosero stressed that once the new parameters are in place, the government will abide by the new policies and not make further changes.

[1](#)5. (C) Rosero did not express an overarching reason for reshaping these institutions, but the general thrust is that

Correa wants public sector bodies that are more responsive to the government's policy direction and/or to prevent special interest groups from taking advantage of public institutions.

Depending on the issue, the various reasons offered by Rosero for reforming public sector economic institutions include: fill currently unmet needs, remove private sector participation in the formal decision making process, ensure the institutions' structures are more logical and cohesive, and change arrangements that are inherently corrupt.

¶6. (C) According to Rosero, the Correa administration will pursue changes at three levels: constitutional, legislative, and regulatory. He said that Correa believes that the current constitution is too detailed, and the government will seek to establish broad guidelines in the constitution and address more detailed provisions in legislation and regulation. As an example, he noted the current constitutional requirement that the administration has to provide congress with a draft budget by September 1, a requirement that he believes should be addressed at the legislative level.

¶7. (C) Speaking before the September 30 elections, Rosero said that if the government party won a majority of the seats (which it did) reftel a), he expects that congress would be dissolved and the Constituent Assembly would take on legislative functions (a view reaffirmed by Correa after his PAIS movement secured a majority of delegates). He said that government offices are working on packages of reforms to submit to the Constituent Assembly. He added that two sets of reforms have been prepared - a competition law and tax reform - and other were still under preparation.

¶8. (C) Rosero mentioned the following reforms that the government would seek (comment: we consider this to be an illustrative list of the types of reforms that the government will pursue, not a comprehensive list):

Parastatal companies: Rosero said that currently many government corporations, such as the telephone companies or the Solidarity Fund (which holds a number of electricity companies), operate as both privately structured companies and public sector entities, switching between two stances depending on which is more convenient at the moment. He said that inconsistent approach is unacceptable, and the government will seek to establish a clear definition of a public sector corporation. (Comment: some of the companies cited by Rosero are known for a high degree of corruption and their resistance to central government guidance. We assume the government's efforts to redefine parastatal corporations will also allow for greater government control.)

Competition Law/Consumer Protection: Rosero noted that Ecuador is one of the few countries in Latin America without a competition law or anti-monopoly agency. He said that the government has prepared a draft competition law that would establish a competition agency. He added that Ecuador has a consumer protection law but has not established a consumer protection agency. He said that the new competition agency would also have authority to enforce the consumer protection law.

Trade Policy: Rosero said that the committee that establishes Ecuador's trade policy, Comexi, includes private sector members. Noting that the Correa administration has a trade policy, and implying that some elements of that policy have been or might be blocked by the private sector members of Comexi, Rosero said that the government intends to establish a trade policy committee that does not include private sector participation, although the government would still consult with the private sector. He noted that other governments, including the U.S., do not allow the private sector to participate in the formal decision-making process.

Electricity: Rosero mentioned that large swaths of the private sector do not pay their electricity bills or tap into the electric and petroleum systems to steal energy, which the government intends to combat. In response to a question whether the government could do so under current rules,

Rosero asserted that it could not since the current rules were established by those who benefit from the current system. As a result, the government will also present new electricity and petroleum laws to the Constituent Assembly.

Earmarking: Rosero said that the current degree of budget earmarking is unacceptable (only about 5 percent of the budget is flexible after earmarking and basic expenses such as salaries and debt payment). He added that while expenditures from some of the petroleum reserve funds are processed through the budget, others are not, impeding budgetary planning. He said the government will seek to eliminate earmarking (including a constitutional provision that 15 percent of current income goes to provinces and municipalities) and suggested it will attempt to modify the petroleum reserve funds.

¶9. (C) Rosero said that the government will also seek political reforms, including redefining regional structures. He agreed that changing regional relationships could cause conflicts within the Constituent Assembly since it will shift budget allocations to the sub-federal governments, but suggested that the government would deal with those conflicts in order to bring about regional change. He said the regional change would affect budgetary allocations beginning in 2009, since the 2008 budget will be established before the conclusion of the Constituent Assembly. (Comment: Rosero did not specify the types of regional change the government would seek, but other government officials have suggested that they will establish regional groupings below the federal government and above the provinces.)

¶10. (C) Comment: Rosero's comments provide some insight into the Correa Administration's thought process for addressing economic issues in the Constituent Assembly, although they are not definitive since key elements are still under deliberation and will no doubt be modified as the Constituent Assembly process proceeds. Of particular note was Rosero's emphasis on modifying public sector economic institutions, rather than reaching further and trying to significantly change private sector institutions and practices.

¶11. (C) Comment, continued: Much of what the government seeks to modify on the economic front will likely be addressed in laws, rather than the constitution. Even so, modifying a wide range of laws, ranging from the fiscal (tax policy, reserve funds) to sectoral regulations (electricity, petroleum, banking) to the new-for-Ecuador (anti-trust, consumer protection), could have a profound impact on the economy. Much will depend on the specific, detailed changes that the government is likely to ask the Constituent Assembly to approve.

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